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EYES ONLY

DD/S 68-1664

01 APR 1968

MEMORANDUM FOR: Executive Director-Comptroller
Deputy Director for Intelligence
Deputy Director for Plans
Deputy Director for Science and Technology
General Counsel
Inspector General
Legislative Counsel

Attached for your consideration is a packet representing a new effort to resolve our retirement problems.

a. Retirement Rationale: The attached draft on the retirement rationale has taken into consideration comments of the Deputy Directors. A provision has been made to permit certain employees to continue in service beyond age 60. This was specifically tailored to respond to the position taken by the DD/I and at the same time would serve to answer some of the special problems with Wage Board type employees.

b. CIA Reserve Corps: This proposal represents a new approach to the basic problem. It offers solutions to a number of the issues we have discussed. The General Counsel has this paper under consideration. On first review, the General Counsel advises that this might possibly be accomplished without legislation but obviously would have to be coordinated with the BoB and our Congressional committees. The compensation formula was arbitrarily selected to offer a comparative example. It could, of course, be any percentage agreed upon.

c. Attached are general estimates of the cost of supplemental compensation for the Reserve Corps. The cost figures will, of course, vary according to the formula.

Your reaction to these proposals would be appreciated.

J - DD/S CIO/DOG Yet SPC

L - DD/S SP/ject

T - [REDACTED] SP/PC M/S/PC

DD/S Internal Distribution:

1 ea. to Messrs. Coffey, [REDACTED] and [REDACTED]

DD/S/KSP/ [REDACTED] J/w/atts

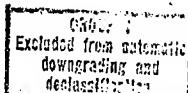
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SIGNED R. L. Bannerman

R. L. Bannerman
Deputy Director
for Support



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CIA RESERVE CORPS

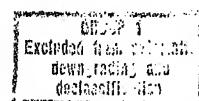
The Agency has need of a system whereby optional retirements and required retirements under both the Civil Service Retirement System (CSRS) and the Central Intelligence Agency Retirement System (CIARS) are in harmony with the Agency's management needs and the individual's personal welfare. These objectives would be obtained to some degree with the creation of a CIA Reserve Corps in which the retired employee would serve in a reserve capacity and would receive supplementary compensation to his annuity for a three-year period.

In brief, the proposal would incorporate these two features:

a. Create a CIA Active Reserve in which retired annuitants would serve not more than three years. To qualify, the reservists must obligate themselves to return to duty in the Agency if asked to do so. The obligation should be renewed at least every six months during the three-year period. Failure to renew the obligation automatically disqualifies the individual from the program.

b. Supplementary Compensation: The reservist would receive supplementary compensation under a predetermined formula of a percentage of the difference between his former salary and the annuity he receives upon retirement. A formula could be structured on the following:

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	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>
a.	80%	40%	20%
b.	80%	60%	40%
c.	60%	40%	20%

The minimum age for participation in the Reserve would be when the employee is first entitled to an unreduced annuity--in the CIARS at age 50 and in the CSRS at age 55. The maximum age for participation in the Reserve would be:

- a. Age 60 for retirees in the CIARS
- b. Age 63 for retirees in the CSRS

The basis for this proposal is as follows:

- a. CIA has a need to maintain a reserve of personnel trained and experienced in Agency methodology, who would be available for immediate duty in the event of a national emergency or a requirement for an abrupt increase in the skills found in any particular field of Agency occupations. Prompt availability would require continuance of medical and security clearance status and an obligation upon the reservist to accept recall either as an employee or in a contract status. This will ensure a viable reserve corps together with an incentive to participate in a reserve program.
- b. Supplementary compensation over the annuity to serve in the reserve corps will enable the (retiree) reservist to more equitably adjust to his retirement status and offset the sharply reduced living

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income. Further it will permit the employee time to seek and adjust to a second career or full retirement status. The downward scaling of the supplementary compensation would be consistent with the declining usefulness of the individual's skills after retirement from the Agency.

c. The opportunity for employees to avail themselves of early retirement at an unreduced annuity and serve in the CIA reserve corps for not more than three years should be rather attractive to those employees seeking a second career but whose skills would still be useful to the Agency until they have established that second career. Any reservist who finds other employment which he does not wish to jeopardize or for other reasons does not wish to be recalled, of course, cancels his reserve status. The age limit of 60 for participation in the reserve for those in the CIARS is consistent with the argumentation presented by CIA to the Congress justifying retirement as early as age 50 and the granting of a more favorable annuity formula. The age limit of 63 for service in the reserve corps by employees under the CSRS is generally consistent with the broad nature of their Agency duties and the fact that Civil Service retirees suffer a 3.75% reduction in annuity as compared with the CIA retirees.

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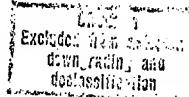
RETIREMENT RATIONALE

The production of intelligence for the national security is a highly specialized function. It is the acquisition of intelligence information from all possible sources and preparation therefrom of timely reports and informed estimates for the policy officials of Government. The spectrum of reported information concerns that infinite variety of subjects and situations that may have a bearing on the welfare and the national security of the United States. The accomplishment of this function requires the U. S. intelligence system to operate on a continuous basis and to be specifically structured to respond to the critical pressures of time and crisis situations on a world-wide basis.

In carrying out its mission of collecting, processing and producing national intelligence, the Agency's principal assets are the technical skills, intellectual discipline, vocational competence and the selfless devotion of its personnel. The quality of the intelligence product is characterized by the maturity, discretion and expert judgment of these employees whose competence is enhanced by specialized training and experience gained through years of professional intelligence activities.

To maintain this level of professionalism of its personnel, the Agency directs a recruitment and selection program which seeks to replenish its staff with individuals of the highest qualifications to be found in today's competitive

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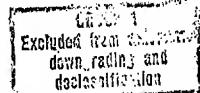
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manpower world. Additional to the high intellectual attainments, it seeks individuals with imagination, flexibility, stamina and judgment who, through appropriate training and career development, provide the continuous infusion of new energies, skills and prevailing "state of the art" knowledge in technical and intellectual disciplines.

The demanding and dynamic nature of the Agency's world-wide intelligence program requires the fullest utilization of these employee talents during their most productive years. At the same time Agency personnel anticipate and expect that their competence and aspirations will be rewarded by promotion and advancement to positions and activities of greater responsibility and authority. To accomplish these dual objectives Agency management must require that those employees who cannot continue to cope with its demanding requirements or who have passed their most productive years should make room for personnel with new skills and greater energies. It is only through a program of timely retirement and replacement that the objectives and mission of the Agency can be achieved.

In 1959 it was decided that normal attrition through resignation, death and retirement was not adequate to meet these replacement objectives. A policy was established that employees should retire when first entitled to an unreduced annuity. That policy has evolved through subsequent changes in the law to retirement at age 60 with 20 years of creditable service for employees under the Civil Service Retirement System. In a further effort

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to achieve these objectives, the Agency in 1964 proposed and there was established the CIA Retirement System whereby those employees engaged in the demanding and specialized field of overseas clandestine intelligence operations and support thereto must retire at age 60. Therefore, the Agency is operating under two retirement systems, one devised to meet the retirement program of Government as a whole and the other devised to meet the Agency's special needs for personnel in the field of overseas clandestine intelligence operations. An additional factor is that there is a wide variety of skills and occupations represented in the total Agency population.

While there are differences in the multiplicity of Agency employee occupations as to the demands and stresses of service in intelligence, it is the Agency's considered judgment that by age 60 most employees have passed the peak of their productive years and energies. Therefore, it is Agency policy that employees under both the Civil Service Retirement System and the CIA Retirement System must retire at age 60. Since it is recognized that a few individual employees in certain types of service may continue their peak of service productivity for a limited period beyond age 60, a limited number of extensions in service will be approved on an individual case basis to meet demonstrated Agency needs.

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~~CONFIDENTIAL~~**EYES ONLY****COSTS - SUPPLEMENTAL COMPENSATION - CIA RESERVE CORPS**

At Tab 1 are examples of alternative supplemental compensation payments to six employees who are actually planning retirement in FY 1969. Grades and steps are shown. The pay rates listed as terminal salaries are based on the proposed July 1968 pay schedule recently announced by the Civil Service Commission. The estimated annuities are reasonably accurate and are based on actual creditable service.

At Tab 2 are various calculations relating to the projected costs of a supplemental compensation system beginning FY 1969. The projections are based on a total of 212 employees scheduled to retire under the Civil Service Retirement Act in FY 1969 and 122 employees eligible in FY 1969 to retire at ages 56, 57, 58, and 59 under the CIA Retirement System. These projections do not include employees eligible to apply for voluntary retirement under the 55-30 option of the Civil Service Retirement Act or those employees under age 56 who may be eligible for voluntary retirement under the CIA Retirement System. In preparing these projections, the salary shown as terminal salary is based on the July 1968 proposed pay schedule. Annuities are rough, "ball-park", estimates based on a review of selected cases and past experience.

At Tab 3 is a summary of costs for both retirement systems based on the information reported in Tab 2.

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CIA SYSTEM**CSC SYSTEM**

	<u>GS-06/9*</u>	<u>GS-12/9</u>	<u>GS-17/3</u>	<u>GS-07/9</u>	<u>GS-12/9</u>	<u>GS-17/3</u>
A. Terminal Salary	\$8,010	\$15,422	\$28,000	\$8,845	\$15,422	\$28,000
B. Annuity	\$3,037	\$ 8,443	\$13,300	\$4,258	\$ 6,005	\$12,380
C. Difference	\$4,973	\$ 6,979	\$14,700	\$4,587	\$ 9,417	\$15,620
D. Supplemental compensation alternatives applied to difference						
(1) 80% — 1st year	\$3,978	\$ 5,583	\$11,760	\$3,669	\$ 7,533	\$12,496
40% — 2nd year	1,989	2,791	5,880	1,834	3,766	6,248
20% — 3rd year	994	1,395	2,940	917	1,883	3,124
(2) 80% — 1st year	\$3,978	\$ 5,583	\$11,760	\$3,669	\$ 7,533	\$12,496
60% — 2nd year	2,983	4,187	8,820	2,752	5,650	9,372
40% — 3rd year	1,989	2,791	5,880	1,834	3,766	6,248
(3) 60% — 1st year	\$2,983	\$ 4,187	\$ 8,820	\$2,752	\$ 5,650	\$ 9,372
40% — 2nd year	1,989	2,791	5,880	1,834	3,766	6,248
20% — 3rd year	994	1,395	2,940	917	1,883	3,124

*No GS-07 is scheduled to retire under the CIA System in FY 1969. This is the closest available.

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~~CONFIDENTIAL~~**EYES ONLY**PROJECTED COSTS - SUPPLEMENTAL COMPENSATIONCivil Service Retirement System

1. Number Eligible	212
2. Average Salary	\$14,064
3. Average Annuity	\$ 6,000
4. Difference	\$ 8,064
5. Supplemental compensation alternatives applied to difference	
a. 80% — 1st year	\$1,367,612
40% — 2nd year	683,700
20% — 3rd year	<u>341,744</u>
Total	\$2,393,056
b. 80% — 1st year	\$1,367,612
60% — 2nd year	1,025,656
40% — 3rd year	<u>683,700</u>
Total	\$3,076,968
c. 60% — 1st year	\$1,025,656
40% — 2nd year	683,700
20% — 3rd year	<u>341,744</u>
Total	\$2,051,100

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PROJECTED COSTS - SUPPLEMENTAL COMPENSATIONCIA Retirement System

1. Age	56	57	58	59	
2. Number Eligible	31	35	30	26	
3. Average Salary	\$ 18,046	\$ 18,125	\$ 19,809	\$ 18,804	
4. Average Annuity	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	
5. Difference	\$ 11,046	\$ 11,125	\$ 12,809	\$ 11,804	
6. Supplemental compensation alternatives applied to difference					Total
a. 80%	\$273,916	\$311,500	\$307,410	\$245,518	\$1,138,344
40%	136,958	155,750	153,690		446,398
20%	68,479	77,875			146,354
Total	\$479,353	\$545,125	\$461,100	\$245,518	\$1,731,096
b. 80%	\$273,916	\$311,500	\$307,410	\$245,518	\$1,138,344
60%	205,437	233,625	230,550		669,612
40%	136,958	155,750			292,708
Total	\$616,311	\$700,875	\$537,960	\$245,518	\$2,100,664
c. 60%	\$205,437	\$233,625	\$230,550	\$184,132	\$ 853,744
40%	136,958	155,750	153,690		446,398
20%	68,479	77,875			146,354
Total	\$410,874	\$467,250	\$384,240	\$184,132	\$1,446,496

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S U M M A R Y

	<u>CS SYSTEM</u>	<u>CIA SYSTEM</u>	<u>TOTAL</u>
<u>Number Eligible</u>	212	122	334
<u>Supplemental Compensation Alternatives</u>			
1st year -- 80%	\$1,367,612	\$1,138,344 ^{1/}	\$2,505,956
2nd year -- 40%	683,700	446,398 ^{2/}	1,130,098
3rd year -- 20%	<u>341,744</u>	<u>146,354^{3/}</u>	<u>488,098</u>
Total	\$2,393,056	\$1,731,096	\$4,124,152
1st year -- 80%	\$1,367,612	\$1,138,344 ^{1/}	\$2,505,956
2nd year -- 60%	1,025,656	669,612 ^{2/}	1,695,268
3rd year -- 40%	<u>683,700</u>	<u>292,708^{3/}</u>	<u>976,408</u>
Total	\$3,076,968	\$2,100,664	\$5,177,632
1st year -- 60%	\$1,025,656	\$ 853,744 ^{1/}	\$1,879,400
2nd year -- 40%	683,700	446,398 ^{2/}	1,130,098
3rd year -- 20%	<u>341,744</u>	<u>146,354^{3/}</u>	<u>488,098</u>
Total	\$2,051,100	\$1,446,496	\$3,497,596

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^{1/} Includes ages 56 through 59 since all qualify for 1st year payment.
^{2/} Includes ages 56 through 58 since only these qualify for 2nd year payment.
^{3/} Includes ages 56 and 57 since only these qualify for 3rd year payment.